



Income Protection, your Rainy Day Pay

In the March issue of "Straight Talk" we discussed in some detail the options available to pay off your mortgage as quickly, and as painlessly as possible. These strategies are all well and good as long as your income continues.

However, consider this - if your income was to stop immediately and indefinitely, how long could you continue not only your home loan repayments, but maintain your current lifestyle, and that of your children?

How long would your savings last, and how long would it take to replace those savings should you be able to return to work?

It's easy to adopt the "It'll never happen to me!" philosophy, but with 1 in 3 Australians being away from work for an extended period of time during their working lives, it will happen to a considerable number of you reading this very article.

What's the answer?

The answer could be an income protection strategy. There are a number of income protection strategies from a wide range of life insurance companies available on the market in Australia today.

However, very rarely is an "off the rack" solution the most appropriate one for you. In order to find the most appropriate strategy it is imperative that you sit down with your financial adviser and take into account all of your personal circumstances.

Basically how does it work?

- An income protection policy can pay up to 75% of your pre-disability income until the age of 65;
- Policies have a waiting period, which is the period you must be off work in order to make a claim, varying from 14 days to 2 years;
- Policies also have a benefit period, which is the period of time for which you can claim.

These are agreed at the time of application. However, you're not locked in. At any time in the future you can cancel your policy, meaning you are committed to it only as long as you need it.

Many of you may well have a form of income protection already, called salary continuance, through you employer or through superannuation.

This often only has a benefit period of only two years, and, if you were permanently disabled, would purely delay the inevitable. How would you survive in year 3? This is where a policy with a two year waiting period may be suitable.

What does it cost to protect my biggest asset?

The cost of the premium will depend on a number of factors including:-

- Your occupation
- Your age
- Your income
- Your gender
- Whether you smoke or not
- Any pre-existing medical conditions

That being said, policies start from as little as \$25 per month and the premiums, generally speaking, are tax deductible.

In summary?

We all insure our car, home and contents, but we often overlook the one thing that provides us with the ability to have these assets, our income.

The key features are:-

- 75% of salary
- Paid up to age 65
- Generally tax deductible

Consider your current debt. If you were to apply for that debt today, but without yours or your partner's income, would it still be approved? The chances are that the answer is no. If that's the case make an appointment with one of our risk insurance experts at the earliest opportunity.

You never know what is around the next corner.



THE STRAIGHT TALK

Attention! Attention! Your super needs attention!



Very big and momentous changes have been announced in the Federal Budget.

Some of the changes to superannuation were effective from 9 May. Others from 1 July 2006, 1 July 2007 and 20 September 2007. We outline those changes in our centrespread piece on the Budget.

Think about this now

Whether you are retired, about to retire, want to continue working and start drawing on your super or are years off any of this, the proposed changes to the rules on putting money into super and taking it out could affect you now.

If you're working for a while yet

The proposed changes on replacing the Age Based limits for tax deductible contributions to super by a universal \$50,000 limit per year in particular could negatively affect many employees and business owners now in their mid 40s.

The proposal to limit Undeducted Contributions to \$150,000 per year from 9 May could also be a potential issue.

Many people in their 40s are looking forward to having the mortgage paid off and the children off their hands so they could start some serious saving into superannuation. The Government is considering Transitional Arrangements but that opportunity for large contributions could be a closed window by June 2012.

If you're retiring soon

Those proposed limits on Deductible and Undeducted Contributions could limit how much you could put into superannuation in the next year or so. That could affect your tax and cash flow planning now and your retirement income in the future.

On the positive side, the Capital Gains Tax concessions when selling your business and retiring have been improved.

Already retired? What's in it for you?

The proposed removal of income tax on your Allocated Pension and Annuity payments, the elimination of tax on lump-sum withdrawals and the easing of the Aged Pension Assets Test could increase your spending capacity. Just take care you don't start spending too much so your money doesn't run out before you do.

Also in this issue:

Income protection - be ready for that rainy day.

The 2006/07 Federal Budget - More changes.

The 2006/2007 Federal Budget - More Changes - Darryl Gobbett

The Budget had something for almost everyone. From across the board tax cuts for individuals to reducing tax and complexity in superannuation and small business regulation to more spending on childcare, roads and rail, national security, education, health and aged care, the list of change seemed to go on and on.

About the only things that did not get a mention were the old staples of cigarettes and beer. Even plans for brick ovens are available with the Budget papers.

All of this against a back-drop of strong world economic growth, rampantly high commodity prices and low inflation and interest rates that is forecast to see the private sector of the Australian economy grow around 4% in 2006/07.

Stronger consumer spending and exports, continued high business investment and the start of a recovery in the housing sector are all forecast by the Government to contribute.

If anything, with the current momentum in the world and Australian economies and good seasonal conditions reported across most of Australia, these forecasts look conservative. That may well be Treasurer's design as stronger economic growth means more expected tax revenue and so more pressure for even bigger tax cuts.

The Government remains on track for maintaining Budget surpluses at least through to 2009/10, so building up financial assets and providing budgetary flexibility.

Looking at some of the tax changes, the new rates and thresholds are shown in the box. The top rates are to be reduced by 2% and the thresholds at each level increased effective 1/7/2006.

This seems part of the process of further cutting the number of people subject to the top marginal rate, with the Treasurer reporting that it will now only apply to 3% of tax payers.

Tax rates & thresholds 2006/07 (plus Medicare Levy)

0 - \$6,000	nil
\$6,000 - \$25,000	15%
\$25,001 - \$75,000	30%
\$75,001 - \$150,000	40%
\$150,001+	45%

There were also increases to the amounts and thresholds for the Low Income and Senior Australian Tax Offsets. Senior Australians eligible for the SATO will pay no tax on annual incomes of \$24,867 for singles and \$41,360 for couples.

Superannuation came in for the most substantial changes. From 1 July 2007 the Government is proposing for those aged 60 and over to eliminate tax on lump sum withdrawals and on superannuation pensions. Reasonable Benefit Limits are also to be abolished.

Once you are over 65, you will not have to take your money out of super and if you could continue to make deductible contributions to age 75.

Importantly the self employed are put on the same footing as employees, with the ability to claim a 100% tax deduction on contributions and be eligible for the Government's Co-Contribution.

Age based limits on deductible superannuation contributions would be replaced by a universal limit of \$50,000. There would also be an annual limit of \$150,000 for Undeducted Contributions, although the Government is considering whether this cap should be averaged over three years so up to \$450,000 could be contributed in one year.



The Treasurer also announced that the Age Pension Assets Test will be eased. For home-owning couples, the cut-off threshold increases by \$275,000 to \$770,000. The Asset Test treatment of rural land adjacent to a pensioner's home is also being eased from 1 January 2007.

Along with these welcome changes, from 20 September 2007 new Complying Income Streams, which many people have used to increase their access to the Aged Pension, will no longer have any Asset Test concession. Complying Income Streams in place at that time will still be concessional assessed.

The proposed superannuation changes are subject to comment by the community and industry but it would seem unlikely there would be any major change to the direction of removing tax on benefits and reducing the complexity of the rules.

Businesses also saw some tax changes. To encourage investment, the Diminishing Value Rate was increased from 150% to 200%, effectively increasing by a third the allowable depreciation rate for all eligible assets. The Fringe Benefits Tax rate is to be reduced to 46.5% and Benefit and Reporting levels increased. The Simplified Tax Systems annual turnover threshold is to double to \$2 million and the \$3 million depreciating assets test is to be removed.



The Wine Equalisation Tax producer rebate is to increase to \$500,000, effectively increasing the exempt amount of domestic wine sales to around \$1.7 million.

The Small Business Capital Gains Tax Concession, which can help small business owners to reduce their capital gains tax when selling their business, is to be changed from 1 July 2006. The maximum net asset value test is to be increased to \$6 million and the 50% controlling individual test is to be replaced by a 20% significant individual test.

Changes are also planned to the active asset test, the 15 year exemption, the retirement exemption, the small business rollover and how the concessions apply to partnerships. Changes were also announced to rules for family and closely held trusts.

A new venture capital vehicle called an Early Stage Venture Capital Limited Partnership will be available from 1 July 2006. The income, both revenue and capital, received by the partners will be tax free but investment losses will not be deductible.

These changes, and the many others that have been announced, will mean some significant opportunities and challenges for investors, retirees and businesses in 2006/07.

WHK at a glance

- In the top 230 listed companies in Australia.
- 5th largest Accounting Group in Australia (revenue).
- 2nd largest independent distributor of Financial Planning Advice (FUA).
- \$430m Market Capitalisation.
- Over 20 Accounting & Financial Services Businesses in Australia & NZ.
- Winner of Australian Small Cap Company of the Year Asia Money Magazine December 2005.

Clients & Readers: Section 945A of the Corporations Act requires financial planners to obtain information from clients before making recommendations.

Equivalent requirements apply also to accountants in relation to the provision of taxation advice. Accordingly, clients and readers should not act only on the basis of material obtained in this newsletter because the contents are of a general nature and therefore do not take into account each person's individual circumstances and may be liable to misinterpretation.

Do not act upon any of the information contained within this newsletter without first obtaining specific advice from your local WHK Group adviser.

Information contained is deemed to be correct at time of printing.

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The material in this update is general in nature and represents an overview of the material presented in the Budget. It should not be relied upon as advice and much of the content will depend on legislation when and if passed by Parliament.



Work to be Done!

Don't risk missing out on the goodies in the Budget. If you answer YES to any of these questions, the Budget affects you:

- Thinking of retiring soon?
- Selling your farm or business in the next 12 months?
- Making some investments soon?
- Aged 45 to 75?
- Paying too much tax?
- Working? Self employed?
- Have an Allocated Pension or Annuity?

Speak to one of our advisers now as there is Work to be Done in 2006.